

To:

Rural Health
Clinics

HMOs and Other
Managed Care
Programs

Cost Report Change for Rural Health Clinics

Effective for cost reports submitted for fiscal year 2005, provider-based rural health clinics (RHCs) affiliated with hospitals that have 50 or fewer beds will be limited to overhead expenses up to 30 percent of RHC direct costs in their cost settlement calculation of encounter rates.

Overhead Expenses Capped at 30 Percent of Total Costs

Effective for cost reports submitted for fiscal year 2005, provider-based rural health clinics (RHCs) affiliated with hospitals that have 50 or fewer beds will be limited to overhead expenses up to 30 percent of RHC direct costs in their cost settlement calculation of encounter rates.

Currently, provider-based RHCs have cost settlement encounter rate calculations based on direct RHC and overhead expenses incurred during the fiscal year. Examples of direct RHC expenses include, but are not limited to, recipient care, physician salaries, medical supplies, and maintaining medical records. Overhead expenses include, but are not limited to, office billing operations, management oversight, educational expenses, and utilities.

Adjustment Examples

The following example illustrates how the 30 percent limitation would be noted on a provider's cost report:

Example 1

Direct RHC Expenses:	\$100,000
Overhead Expenses:	<u>+ \$90,000</u>
Total Expenses (before the 30 percent adjustment):	\$190,000
Allowable Overhead Expense on Cost Report:	\$30,000 (30 percent of \$100,000 direct RHC expenses)
Total Expense for Encounter Rate Calculation:	\$130,000 (\$100,000 direct RHC expenses plus \$30,000 adjusted overhead expenses)

In the encounter rate calculation, the provider would not be eligible for the remaining \$60,000 of overhead expenses actually incurred since it exceeds the 30 percent limit. The \$30,000 of allowable overhead expenses should be submitted on Line 7 ("Overhead applicable to RHC services") of the Cost Report for Provider-Based Rural Health Clinics (Affiliated Hospital Having 50 or Fewer Beds) form, HCF 11080 (Rev. 02/05), issued in the February 2005 *Wisconsin Medicaid and BadgerCare Update* (2005-12), titled "Revised Cost Report Forms for Rural Health Clinics."

If the RHC has not applied the limit to the filed cost report, the Medicaid auditor will adjust the overhead expense as stated on Line 7 to reflect the 30 percent limit on the audited version of the cost report.

An adjustment is not required for the following example:

Example 2

Direct RHC Expenses:	\$250,000
Overhead Expenses:	<u>+ \$75,000</u>
Total Expenses:	\$325,000
Allowable Overhead Expense on Cost Report:	\$75,000 (30 percent of \$250,000 direct RHC expenses)
Total Expense for Encounter Rate Calculation:	\$325,000 (\$250,000 direct RHC expenses plus \$75,000 adjusted overhead expenses)

In this example, there are \$75,000 of allowable RHC overhead expenses. The provider is eligible for the entire \$75,000 of overhead expenses actually incurred, since it meets the 30 percent limit. The \$75,000 of allowable overhead expenses should be on Line 7 of the Cost Report for Provider-Based Rural Health Clinics (Affiliated Hospital Having 50 or Fewer Beds) form.

Refer to the Forms page of the Medicaid Web site at dhfs.wisconsin.gov/medicaid/ for the Cost Report for Provider-Based Rural Health Clinics (Affiliated Hospital Having 50 or Fewer Beds) form and instructions.

The *Wisconsin Medicaid and BadgerCare Update* is the first source of program policy and billing information for providers.

Although the *Update* refers to Medicaid recipients, all information applies to BadgerCare recipients also.

Wisconsin Medicaid and BadgerCare are administered by the Division of Health Care Financing, Wisconsin Department of Health and Family Services, P.O. Box 309, Madison, WI 53701-0309.

For questions, call Provider Services at (800) 947-9627 or (608) 221-9883 or visit our Web site at dhfs.wisconsin.gov/medicaid/.

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